

**October 25, 2005**

**ORDER**

**The Anand People's Co-operative Bank Ltd., Anand (Gujarat)-  
Cancellation of licence to carry on banking business in India  
under Section 22 of the Banking Regulation Act, 1949  
(As Applicable to Cooperative Societies)**

The Anand People's Co-operative Bank Ltd., Anand (Gujarat) (hereinafter referred to as the 'bank') was registered as a co-operative society on March 29, 1971 and it was granted a licence by the Reserve Bank of India on December 01, 1979 to conduct banking business under Section 22 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) (hereinafter referred to as the 'Act').

2. The bank was classified as "weak" on the basis of the statutory inspection conducted by the Reserve bank of India under section 35 of the Act with reference to its financial position as on March 31, 1997. A subsequent inspection of the bank with reference to its position as on March 31, 2002 revealed that the bank's net worth was negative at (-) Rs. 789.96 lakh and it was not complying with Sections 11 and 22(3)(a) of the Act. The bank's Capital to Risk-weighted Assets Ratio (CRAR) was assessed negative at (-) 17.7%. Its net NPAs were high at 45.7%. The bank was also defaulting in maintenance of Cash Reserve Ratio and Statutory Liquidity Ratio as required under Sections 18 and 24 of the Act, respectively. The bank was, therefore, classified as "sick" as on March 31, 2002. In view of its precarious financial position and to protect the interest of the depositors, the bank was placed under Directions under Section 35A of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) with effect from August 30, 2002, which inter alia, prohibited the bank from repaying more than Rs. 500/- from each deposit account.

3. An inspection of the bank conducted by the Reserve Bank of India with reference to the financial position as on June 30, 2004, revealed the following serious deficiencies and irregularities:

- i) The real or exchangeable value of its paid up capital and reserves was assessed **negative** at (-) Rs.1913.96 lakh. Thus, the bank did not comply with the requirement of minimum share capital prescribed in terms of the provisions of Section 11(1) of the Act. The erosion in the value of bank's assets had not only wiped out its owned funds but had also affected its deposits to the extent of 41.4% of the total deposits. Thus, the bank was not having adequate assets to meet its liabilities and hence it did not comply with the provisions of Section 22(3)(a) of the Act.
- ii) The bank's CRAR was assessed **negative** at (-) 88.1%.
- iii) The bank did not invest any sum in government and other approved securities thereby was not complying with RBI guidelines in this regard.
- iv) Quality of credit management of the bank was highly unsatisfactory. The bank did not have a proper system of credit appraisal. Post-sanction supervision of credit was also poor. The credit deposit ratio of the bank was high at 101.0% reflecting an over extended credit portfolio.
- v) The gross NPAs were assessed at Rs.4485.99 lakh forming 96.1% of the total gross loans and advances. The net NPAs were assessed at Rs. 3448.04 lakh constituting 95.0% of net loans and advances.
- vi) The bank had not achieved the targets relating to loans and advances fixed for priority sector as well as weaker sections.
- vii) The bank had not followed prudential exposure norms and was not adhering to RBI instructions regarding income-recognition, asset classification and provisioning.
- viii) The bank had reported losses for the previous three years and its accumulated losses as on March 31, 2004 stood at Rs.2388.94 lakh.
- ix) The liquidity position of the bank continued to be unsatisfactory. The bank had defaulted in maintaining Cash Reserve Ratio during the period from June 19, 2002 to August 22, 2003. The bank had also defaulted in maintaining Statutory Liquidity Ratio during the period covered by the inspection. A penalty of

Rs.73.17 lakh imposed on the bank for SLR defaults was yet to be paid by the bank.

- x) The bank had not introduced concurrent audit.
- xi) The management of the bank was unsatisfactory. The bank did not have directors with suitable banking experience or relevant professional qualifications. Meetings of Audit and Loan Committees of directors were seldom held. The bank had not furnished satisfactory compliance to the previous inspection report.

4. The facts mentioned above revealed that the financial position of the bank had deteriorated further between March 31, 2002 and June 30, 2004 and its affairs were being conducted in a manner detrimental to the interest of depositors. In view of the aforesaid serious deficiencies/irregularities and the precarious financial position of the bank, the Reserve Bank of India issued a show cause notice to the bank on November 11, 2004 as to why the licence granted to it on December 01, 1979 to conduct banking business should not be cancelled. The bank submitted its reply to the show-cause notice vide its letter dated November 29, 2004. The reply of the bank was examined and a scrutiny of the bank's books of accounts was conducted with reference to its position as on September 30, 2004. The scrutiny revealed that the financial position had been deteriorating continuously, leaving no scope for revival as under:

- (a) The net worth of the bank was assessed negative at (-) Rs.2252.96 lakh, resulting in erosion of its deposits to the extent of 49.4% of total deposits.
- (b) The CRAR was assessed as negative at (-) 87.0%.
- (c) Gross Non-performing assets of the bank constituted 99.7% of gross advances and net NPAs constituted 99.5% of net advances.
- (d) The bank had continued to default in maintenance of Statutory Liquidity Ratio.

The bank's Managing Director and four other officials of the bank were also given a personal hearing by the Reserve Bank of India on January 22, 2005. The bank's reply to the show cause notice and the presentations by the bank during the above hearing were not satisfactory and the chances of the bank's revival were considered remote. The Registrar of Co-operative Societies, Gujarat was, therefore, requested by the Reserve Bank of India vide letter dated May 14, 2005 to explore the feasibility

of merging the bank with another sound bank. However, no response was received in this regard.

5. It is, therefore, evident from the foregoing that:

- The bank does not comply with the provisions of Section 11 (1), 18, 22 (3)(a), 22 (3)(b) and 24 of the Act.
- The bank is not in a position to pay its present depositors.
- The affairs of the bank are being conducted in a manner detrimental to the interests of the depositors.
- The financial position of the bank leaves no scope for its revival.
- In all likelihood public interest will be adversely affected if the bank is allowed to carry on its business.

6. Having regard to all these facts, the Reserve Bank of India is satisfied that allowing the bank to carry on banking business any further would be detrimental to the interests of the present and future depositors. Hence, the licence granted to the bank to conduct banking business deserves to be cancelled. Accordingly, the licence dated December 01, 1979 granted to the Anand People's Co-operative Bank Ltd., Anand (Gujarat) to conduct banking business in India under Section 22 of the Act read with Section 56 of the Banking Regulation Act, 1949 is hereby cancelled. This order makes it obligatory on the part of the bank to stop conducting 'banking business' within the meaning of Section 5(b) of the Act, including acceptance and repayment of deposits, with immediate effect.

7 Copy of this order be served on the Anand People's Co-operative Bank Ltd., Anand (Gujarat).

(V Leedhar)  
Deputy Governor